A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

June, 1984

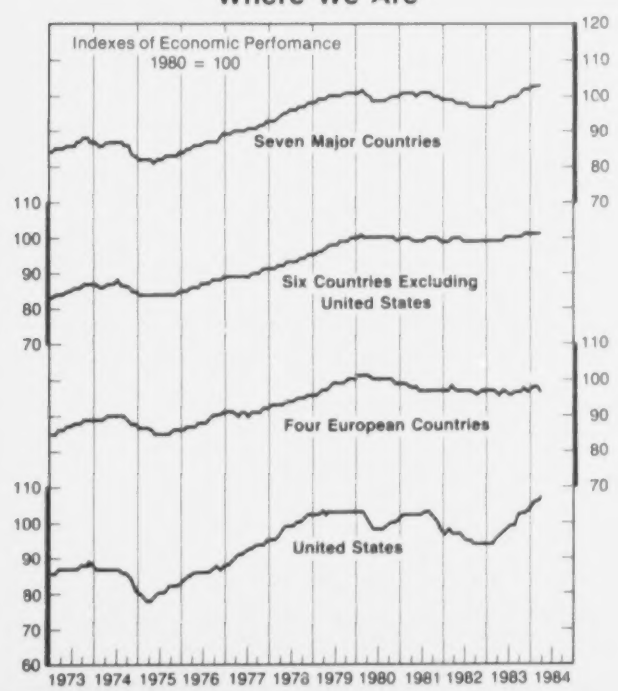
SUMMARY

The leading indicators show that the business cycle upswing is continuing in the major industrial countries around the world. In North America, the pace of expansion shows clear signs of slowing down. The April leading index for the United States is growing at a 9 percent rate, half of the 18 percent of six months earlier. In Canada, the latest growth rate is 6 percent, down from 16 percent. In Japan and Europe, the leading indicators are moving forward at a fairly steady rate. The latest reading for Japan is a 13 percent growth rate, up slightly from 6 months ago. In Europe, the composite leading index shows a 5 percent growth rate, little changed over the past half year. It is notable, however, that the composite economic performance index for Europe (unlike North America and Japan) shows that the improvement in the early-moving indicators has not yet been translated into a significant upswing in overall economic activity.

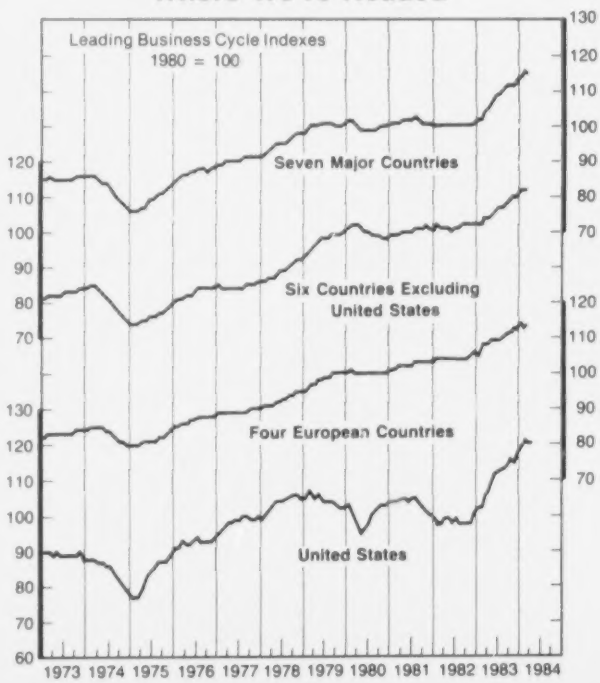
		*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	Ten-year Growth Rate 1969-79	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
		annual rates, percent							
United States	3	11	13	10	18	14	9	Expansion continuing	Apr.
Canada	4	7	6	2	16	10	6	Expansion continuing	Mar.
Japan	5	3	4	3	11	13	13	Expansion continuing	Mar.
United Kingdom	2	2	4	1	3	5	4	Slow recovery under way	Mar.
West Germany	3	2	3	1	8	8	3	Slow recovery under way	Mar.
France	4	– 1	– 1	0	7	7	8	Leaders advancing; economy weak	Mar.
Italy	3	– 3	1	3	2	5	4	Leaders advancing; economy weak	Nov./Dec.
7 countries	3	5	6	5	12	11	9	Expansion continuing	Mar.
6 countries ex. U.S.	4	2	2	1	8	9	8	Slow recovery under way	Mar.
4 European countries	3	1	1	0	6	6	5	Slow recovery under way	Mar.
3 countries ex. Europe	4	8	9	8	15	14	11	Expansion continuing	Mar.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Where We Are


Indexes of Economic Perfomance
1980 = 100
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

Where We're Headed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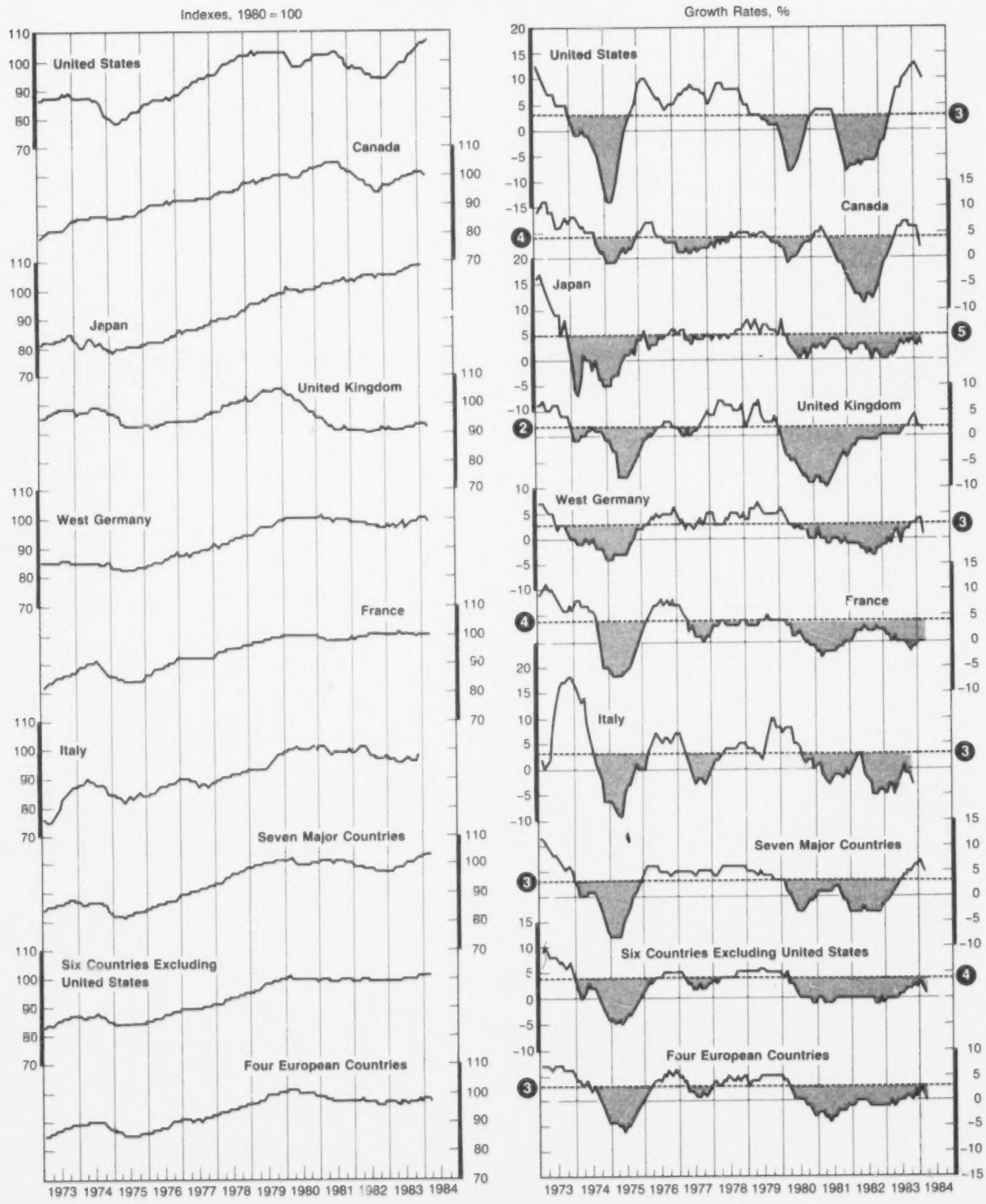
Where We Are

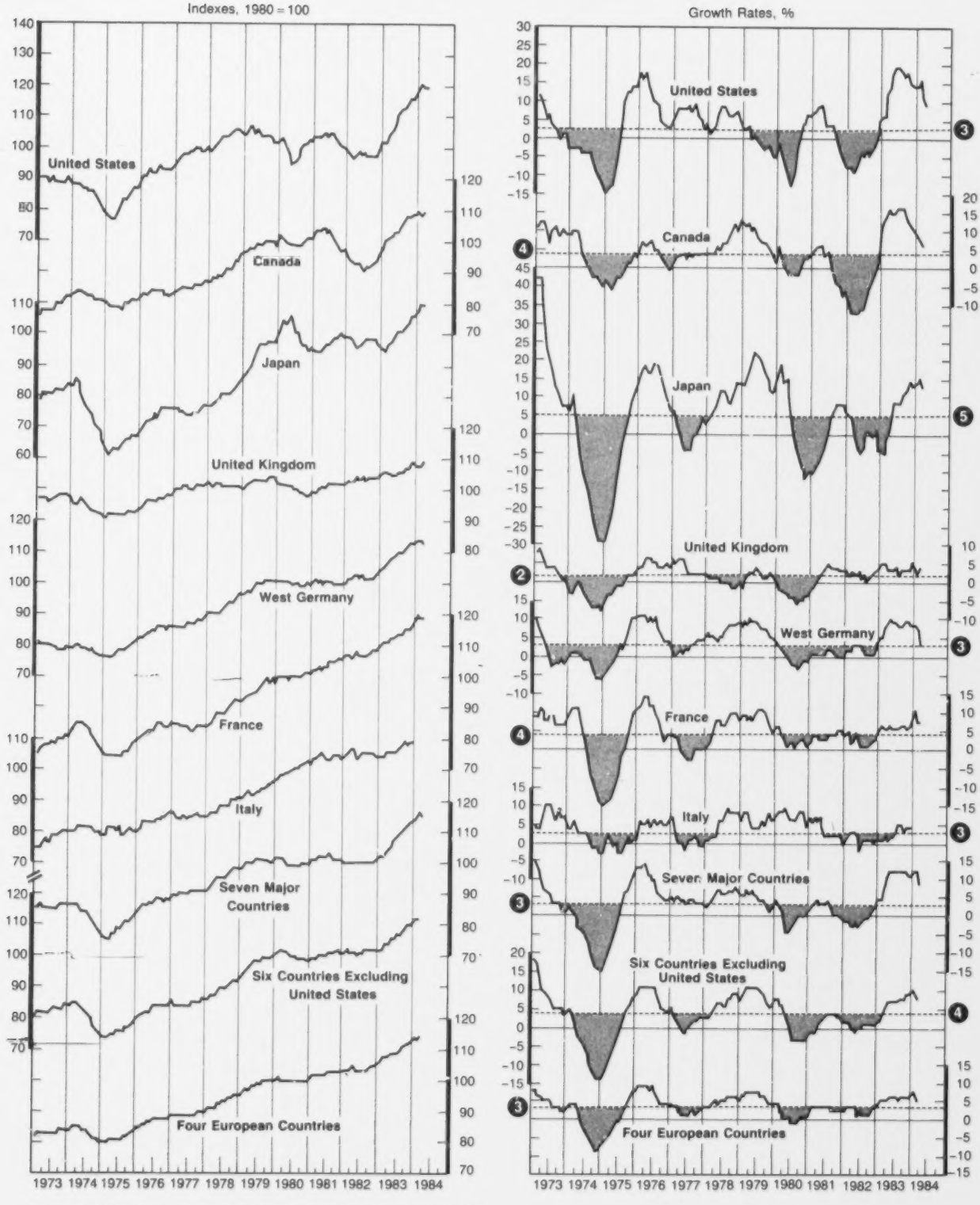
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Source: The Conference Board

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dash lines are average growth rates for 1969-79 in the index and in real GNP.
Source: The Conference Board

PROSPECTS FOR SLACKENING IMPORT GROWTH, SPEEDIER EXPORT GROWTH

The U.S. trade balance (including both goods and services) deteriorated sharply during the past year. From a modest surplus of $17 billion (annual rate) in the first quarter of 1983, the trade balance moved into a deficit position, which became progressively larger, reaching a negative $48 billion rate in the first quarter of 1984. Both imports and exports increased during the period, but imports rose faster, 31%, while exports rose only 10%. Both of these figures were lifted somewhat by inflation; in volume terms imports rose 30%, exports, 5%.

Even more dramatic have been the changes in the U.S. trade position with respect to autos and other capital equipment. For these goods, import volume rose 49% between I/1983 and I/1984 and export volume rose 6%. In I/1983 the U.S. was a modest net exporter of capital goods and autos; by I/1984, a major net importer.

Changes in external deficits are often analyzed by focusing on the growth of economic activity at home and abroad and changes in foreign exchange rates. The cyclical behavior of the U.S. and foreign economies contributed importantly to the widening of the U.S. trade deficit last year. The relatively rapid expansion of the U.S. economy stimulated U.S. imports. The continued sluggishness in most of the other countries held back the growth of U.S. exports. In addition, the substantial appreciation of the dollar worked in the same direction, making imports relatively cheap and exports expensive.

The cyclical situation, however, seems about to change, with a slackening growth in the volume of U.S. imports and a speedup of export growth. A deterioration in the U.S. trade position is customary during the first year of an economic recovery, but during the second and third years import growth has customarily declined while export growth has typically increased. Judging from the Scoreboard's leading indexes, this transition is about to begin. The growth rate in the U.S. leading index, which anticipates movements in import growth, has been declining since last summer. The growth rate in the composite leading index for the six major industrial countries other than the U.S., which foreshadows growth in U.S. exports, has been rising steadily for more than a year.

The accompanying charts of cyclical recovery patterns display these past and prospective relationships. The latest growth rate for import volume, at 33% in the first quarter at an annual rate, was more than twice as high as the average rate at the same stage of previous recoveries. In fact, it was the highest growth rate for imports since 1950. The growth rate of exports in the first quarter, at 7%, was slower than at the same stage of any of the six recoveries and only about half as high as average. The unusually sharp rise in the dollar exchange rate was doubtless partly responsible for both the rapid growth of imports and the slow growth of exports.

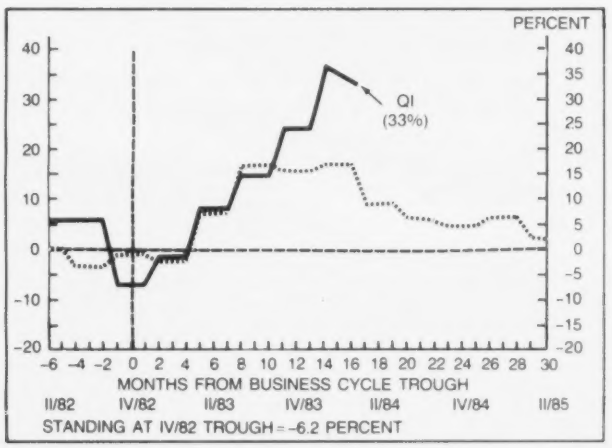
From here on, however, past recovery experience and the recent behavior of the leading indexes suggest that exports will do better and imports not so well. Any depreciation in the exchange value of the dollar would reinforce the movements in this direction, although with a lag. By the end of the year it would not be surprising to see U.S. export volume growing faster than import volume. The leading indexes have virtually reached that point already, with the U.S. index growth rate having slowed to 9% in April, whereas the six-country index growth rate was 8% in March.

Another significant harbinger of export growth, especially in the capital goods area, is foreign orders for machine tools. In the first five months of 1984 new orders from foreign sources for U.S.-made cutting and forming tools were up 178% from a year earlier, according to the National Machine Tool Builders Association. Domestic orders were up 100%. A year ago, of course, orders were at a very depressed level, but the sharp rebound in foreign orders means that the recession's impact on U.S. exports is abating.

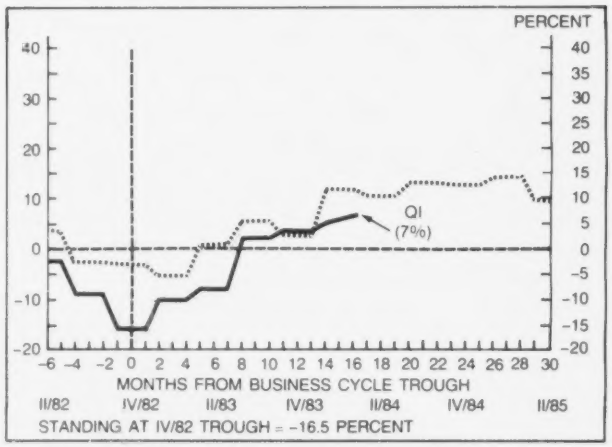
RECOVERY PATTERNS: LEADING INDEXES, U.S. IMPORTS AND EXPORTS

Current expansion (from November 1981)
Average, six previous expansions (1949-80)

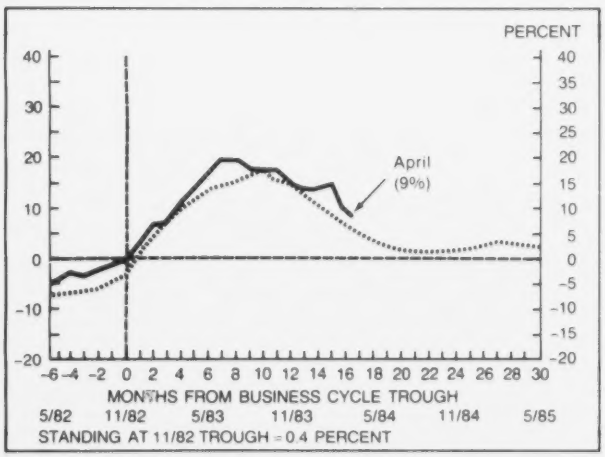
U.S. IMPORT VOLUME, GROWTH RATE



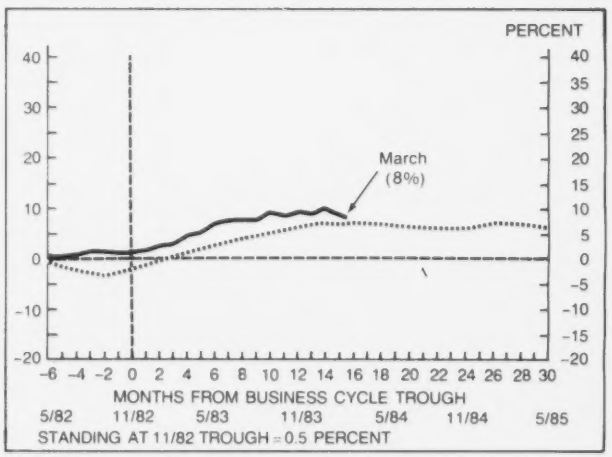
U.S. EXPORT VOLUME, GROWTH RATE



U.S. LEADING INDEX, GROWTH RATE



SIX-COUNTRY LEADING INDEX, GROWTH RATE



Note: Growth rates are six-month smoothed or two-quarter smoothed rates, expressed at annual rate. Trade data are from the U.S. Department of Commerce gross national product accounts, expressed in 1972 dollars, and include both goods and services.

The Conference Board, Inc.
845 Third Avenue, New York, N.Y. 10022
(212) 759-0900 Telex 234465 and 237282

The Conference Board of Canada
25 McArthur Road
Ottawa, Ontario, K1L-6R3, Canada
(613) 746-1261

The Conference Board, Inc.
Avenue Louise, 207 Bte 5
B-1050 Brussels, Belgium
(02) 640 62 40 Telex 63635

INDEXES, SEVEN COUNTRIES, 1982-83

	U.S.		Canada		Japan		U.K.		West Germany		France		Italy		7 Countries		6 Countries ex. U.S.		4 Countries Europe	
	Indexes, 1980 = 100																			
	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Dec. 82	94	101	95	96	105	96	91	104	97	104	100	108	97	105	97	101	99	102	97	105
Jan. 83	94	102	96	99	105	95	91	105	98	105	100	109	96	105	97	102	99	102	97	106
Feb. 83	94	102	96	100	105	94	91	106	97	106	100	111	96	105	97	102	99	102	97	107
Mar. 83	95	105	96	101	105	96	91	106	98	107	100	111	96	106	98	104	99	104	97	108
Apr. 83	96	107	97	103	105	97	91	105	97	108	100	112	95	106	98	105	99	104	96	108
May 83	97	109	98	103	105	99	91	106	98	109	101	112	95	106	98	107	99	105	97	109
June 83	98	111	98	104	106	101	91	106	99	109	100	112	96	106	99	108	100	106	97	109
July 83	99	112	99	106	106	101	91	106	97	110	100	113	96	107	100	109	100	107	96	109
Aug. 83	99	113	99	107	107	102	92	106	98	110	100	113	97	108	100	110	100	107	97	110
Sept. 83	101	114	100	108	107	103	92	107	99	109	100	115	96	109	100	111	100	108	97	111
Oct. 83	102	116	100	108	108	104	92	107	99	112	99	115	96	108	101	112	100	109	97	111
Nov. 83	103	116	100	109	108	106	93	107	99	113	100	115	98	109	102	112	101	110	98	112
Dec. 83	104	117	101	109	108	106	93	109	100	113	100	117		109	102	113	101	110	97	112
Jan. 84	105	119	101	110	108	108	93	108	100	114	100	120			103	114	101	112	98	114
Feb. 84	106	121	101	109	108	110	93	108	100	114	100	119			103	116	101	112	98	113
Mar. 84	106	120	100	110	108	110	92	109	99	113	100	119			103	115	101	112	97	114
Apr. 84	107	120																		
	Growth Rates, Percent																			
Dec. 82	- 4	5	- 5	5	1	- 4	0	3	- 2	4	2	3	- 4	1	- 2	3	- 1	1	- 1	3
Jan. 83	- 2	6	- 2	11	0	- 4	0	4	- 1	5	2	4	- 5	1	- 1	4	- 0	2	- 1	4
Feb. 83	- 2	6	- 1	13	0	- 5	0	5	- 1	- 5	1	7	- 4	1	- 1	4	0	2	- 1	5
Mar. 83	0	12	1	14	0	- 1	0	5	0	7	1	6	- 3	2	0	7	0	4	0	5
Apr. 83	2	14	2	16	1	1	0	3	- 1	8	0	6	- 5	1	1	9	0	5	- 1	5
May 83	5	17	4	15	1	6	0	3	1	10	1	7	- 3	2	2	11	1	7	0	6
June 83	7	19	5	15	1	8	0	3	2	9	0	6	- 1	2	3	12	1	7	0	6
July 83	8	19	6	16	3	8	0	4	- 1	9	0	6	- 1	3	4	12	1	7	0	6
Aug. 83	8	18	6	16	4	8	1	2	1	8	0	6	1	5	4	12	2	7	1	5
Sept. 83	10	17	7	16	3	11	2	3	2	8	- 1	7	- 1	5	5	12	2	8	1	6
Oct. 83	11	18	7	12	4	12	2	3	2	9	- 2	7	- 1	3	5	12	2	8	1	6
Nov. 83	11	15	6	11	3	14	3	3	3	9	- 1	6	3	4	6	11	3	9	2	6
Dec. 83	12	14	6	10	4	13	4	5	3	8	- 1	7		4	6	11	2	9	1	6
Jan. 84	13	14	6	9	3	14	2	4	4	8	0	11			7	12	3	10	3	8
Feb. 84	12	16	3	7	4	15	2	2	4	7	0	8			6	12	2	9	2	6
Mar. 84	11	11	2	6	3	13	1	4	1	3	0	8			5	9	1	8	0	5
Apr. 84	10	9																		
	Ten Year Annual Growth Rate, Percent																			
1969#79	3	3	4	4	5	5	2	2	3	3	4	4	3	3	3	3	4	4	3	3

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

Each issue of the *Scoreboard* includes indexes of economic performance for the major industrial nations as well as the leading indexes. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, are equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

Another Reminder, Revisions:

Beginning January 1984, the indexes are shown with 1980 = 100 rather than 1970 = 100. The long-run growth rate (see above) is for 1969-79, not 1966-76. The composite indexes for groups of countries are weighted by each country's GNP in 1980, not 1970, and a new index is shown for the U.S., Canada and Japan. A few changes have been made in the components of the indexes.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916